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STATE FOR EAP/EP, EB/IFD, EB/TPP/BTA/ANA, EB/TPP/MTA/IPC  
STATE ALSO PASS USTR FOR BWEISEL AND DKATZ  
STATE ALSO PASS USAID, OPIC, USDA  
TREASURY FOR OASIA FOR AJEWELL  
USDOC FOR 4430/ITA/MAC/DBISBEE  
USDOC PASS USPTO FOR PFWLER

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [KIPR](#) [RP](#)

SUBJECT: USTR, DOC VISIT ILLUSTRATES TRADE AND INVESTMENT  
TRENDS

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1. (SBU) Summary: USTR, Department of Commerce (DOC) and U.S. Patent and Trademark Office (USPTO) officials, accompanied by econoffs, met with congressional leaders, GRP officials and U.S. business leaders to discuss general economic issues including the upcoming WTO meeting, ASEAN, IPR protection, and banking and investment. American business representatives expressed concern over the overall investment climate, pointing to political uncertainties, increased taxation and a declining labor pool. There is genuine concern on the part of both U.S. interests and GRP leaders that the RP stands to lose substantial economic ground relative to other ASEAN countries. End Summary.

2. (U) U.S. Trade Representative (USTR) Director for Southeast Asia and Pacific Affairs David Katz, U.S. Department of Commerce (DOC) Deputy Director David Bisbee and U.S. Patent and Trademark Office (USPTO) Senior Counsel Peter Fowler visited Manila October 16-17 to meet with RP Congressional leaders, executive branch counterparts and U.S. business leaders to discuss IPR and general economic issues. While the primary purpose of the visit was to prepare for an upcoming 301 IPR Out-of-Cycle Review (septel), the visit also highlighted some trade and investment trends.

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DISCUSSING TRADE AND INVESTMENT WITH SENATOR RECTO  
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3. (SBU) USTR, DOC and EconCouns briefed Senate Ways and Means Committee Chairman Ralph Recto on bilateral trade and investment issues, especially the importance of intellectual property rights protection to overall trade and economic growth. Recto's main priority is to codify all investment laws and to create one investment office, which may include collapsing the Philippine Economic Zone Authority and the Board of Investments.

4. (SBU) Recto expressed interest in the possibility of a Free Trade Agreement (FTA) with the U.S. USTR stated that the GRP can demonstrate its commitment to an FTA by addressing applied tariff rates rather than bound rates. Recto indicated that such a reduction would be difficult at this time largely because of the effect on overall government revenues.

5. (SBU) Senator Recto will likely be one of the GRP's official delegates to the WTO meeting in December, as well as to ASEAN. Katz highlighted the recent U.S. agricultural proposal and emphasized that the U.S. is putting enormous political equities on the table in order to pursue greater global trade. He added that if the GRP is willing to open agricultural markets, U.S. companies would probably seek more investment opportunities in the Philippines based on its comparative advantage over other countries in the region. DOC added that if the RP can become a leader in biotechnology, the country would gain an important economic niche in the regional market.

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CHECKING IN WITH THE BANKING SECTOR  
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6. (SBU) The Bankers Association of the Philippines (BAP) reported that Philippine banks have adopted stricter lending policies and lowered the percentage of non-performing loans to single digits, not out of a fear of lending, but as an effective risk management tool. BAP officials stated that the banking market in the RP is constrained by a general lack of capital. An additional barrier is that the requirements for opening a branch are difficult to fulfill. However, one of the biggest RP banks, the Bank of the Philippine Islands, has formed a strategic alliances with Singapore banks, notably SDI and DBS. The BPI-DBS alliance

in particular is quietly taking over other, smaller banks. BAP officials described significant collaboration among banks in the ASEAN region, noting that support for intra-regional trade is a priority. Banks are looking at correspondent banking as one mechanism for competing with larger Western banks. BAP noted that quite a few government reforms have been initiated since 1997, but that fixed income exchange and infrastructure reform remain key issues.

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VIEWS ON FOREIGN DIRECT INVESTMENT FROM AMCHAM  
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17. (SBU) In a breakfast meeting with the American Chamber of Commerce of the RP (AmCham), AmCham board members noted three key industries for investment: IT enabled services, semiconductors and services markets. The AmCham Chairman described IT business (call centers and business process in and out sourcing) as "red hot" and that the RP is "running neck in neck with India." Eight to ten new companies a month are getting into the IT-enabled services market, with Dell as a recent example. The semiconductor industry accounts for about 70 percent of exports, but it is slowing down, experiencing year-on-year export growth of only about one percent. The goods and services industry in the domestic market is also declining. Manufacturing operations are moving out of the RP to other countries in the region because of high labor costs and litigious labor unions.

18. (SBU) US company representatives expressed concern over the investment climate. Companies are looking for substantially larger growth rates, regulatory stability and market certainty. One concern was the new EVAT tax, which energy executives estimate will increase their costs by ten to fifteen percent. Some expressed growing concern over the quality of the labor market. One of the biggest advantages of the RP labor market has been its English language skills, but investors report that the overall skill level is declining as the available pool of qualified workers also declines. Representatives stressed that the window of opportunity for the RP is relatively small because China is training millions of its workers to speak English, which could begin to push the RP out of the market in the near future. AmCham company reps indicated that they would like to see fundamental, constitutional changes on all industry specific investment and ownership restrictions, but some feel that such change is probably at least ten years away.

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THOUGHTS FROM A LOCAL THINK TANK  
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19. (SBU) The Director of the Asia Institute for Management, a local think tank, stated that the RP economy has been on a historically low-level growth path due to poor population policy, which has affected both per capita and overall GDP. Until an effective population policy is in place, the RP faces an uphill economic climb. However, the Director indicated that the services sector is what could really make a difference for the RP, especially in medical and health fields, tourism, IT, accounting and franchising. He added that Filipinos have a "natural, cultural" tendency toward "caring" and that if they could capitalize on this skill, it would give the RP a comparative advantage over other economies in the region. With respect to ASEAN's role, the Director commented that ASEAN is looking for leadership especially with respect to ideas; ASEAN needs the kind of leadership that would push the organization in a clearly defined direction. He sees ASEAN as a reactive organization. However, he pointed out that we should look closely at sub-regional arrangements within the ASEAN context, as this is where significant economic activities might be occurring.

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COMMENT  
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10. (SBU) The visit by USTR, USPTO and the DOC provided an opportunity to look at several important trade and investment issues. American investors are worried about the investment climate and see little prospect for significant improvement in the near term. Leaders and scholars alike are all too aware of the challenges and are concerned about the RP's potential decline in comparative advantage with respect to the region. They are also concerned about losing attractiveness as a candidate for US trade and investment. Leaders such as Senator Recto are working hard to stop these trends but appear to need more help from colleagues as well as the business community.

JONES